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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of )  
 )  
Federal-State Joint Board on ) CC Docket No. 96-45  
Universal Service )

Puerto Rico Telephone Company ("PRTC") submits its Reply to Oppositions to its Petition for Reconsideration of certain aspects of the Commission's Report and Order<sup>1</sup> issued in the above-referenced proceeding.<sup>2</sup>

Centennial Cellular Corp. ("Centennial") and MCI dispute that the insular nature of an area served by a carrier affects that carrier's costs. Specifically, these commenters assert that PRTC in particular should be treated no differently than any other mainland carrier. This disagreement, however, would be more appropriately directed to Congress, which provided that consumers in insular areas would have access to

1. Federal-State Joint Board on Universal Service, Report and Order, CC Docket No. 96-45, FCC 97-157 (rel. May 8, 1997) ("Order").

2. PRTC also submits on this date its Reply to Oppositions to Petition for Reconsideration of the Access Charge Reform Order (CC Docket No. 96-262) regarding the requirement that all universal service support be applied to reduce or satisfy the interstate access charge revenue requirement. To the extent that this issue is also addressed in the instant universal service proceeding, PRTC incorporates by reference that Reply in this docket as well (attached as Exhibit 1).

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telecommunications services "available at rates that are reasonably comparable to rates charged for similar services in urban areas."<sup>3</sup> PRTC's position is not dependent solely upon the fact that it specifically experiences higher operating costs, but upon the very words of section 254 as well. Neither the Commission nor any party filing oppositions has explained how the statutory requirement pertaining to insular areas is satisfied with the new universal service program.

PRTC has proposed that to give effect to every word of the statute — as required by basic rules of statutory construction — carriers in insular areas should be afforded the same treatment as carriers serving rural areas. Support for these carriers must be available based on actual data for some limited period prior to a transition to the proxy model methodology. Particularly for insular areas, there is no indication that the proxy models will predict accurately the cost of providing service.<sup>4</sup> There is sufficient record evidence supporting the fact that carriers serving insular areas experience different costs than carriers serving mainland areas<sup>5</sup> and that universal service, particularly in Puerto Rico, has not been achieved. A proxy model estimate

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3. 47 U.S.C. § 254(b)(3) (emphasis added).

4. As noted previously, to date none of the models have been populated with Puerto Rico data. For this reason, it is impossible for the Commission and the parties to determine whether this modeling approach will satisfy the statutory universal service requirements.

5. See, e.g., Comments of Virgin Islands Telephone Corporation on Petitions for Reconsideration at 4.

that fails to account for such differences will adversely affect any carrier's ability to provide and extend universal service, regardless of the size of the carrier or theories regarding economies of scale and scope.<sup>6</sup>

## II. CENTENNIAL'S ASSESSMENT OF PRTC'S TOTAL COSTS IS INAPPOSITE

Centennial claims that reasons other than "insularity" have increased PRTC's costs.<sup>7</sup> Centennial then embarks upon a hypothetical discussion regarding possible explanations for PRTC's high loop costs, including speculation regarding its switching placement. However, in the context of analyzing PRTC's cost data with respect to past universal service support, only loop costs have been applicable.

In an effort to increase service penetration, PRTC has embarked on an aggressive investment program to reach those subscribers for whom local facilities have not been available. However, the set of non-subscribers also includes those individuals who have access to facilities but for whom the rates are not affordable. Centennial and other competitors should bear in mind that universal service also must be available to ensure affordable service to these consumers, as well. In many cases,

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6. As the Commission has recognized, the obligation to establish support mechanisms that are "sufficient" to "preserve and advance universal service . . . necessarily falls upon the Commission because the statute limits the states' authority in this regard to adopting support mechanisms that do not conflict with federal mechanisms." Order on Reconsideration, FCC 97-246 (rel. July 10, 1997) at ¶ 25.

7. Centennial Comments at 3-5.

available Lifeline support alone will not achieve this goal, particularly if a reduction in high cost support causes local rates to rise. Therefore, a universal service support mechanism must address both high costs and affordability of service.

**III. PUERTO RICO'S CONTINUED NEED FOR UNIVERSAL SERVICE SUPPORT SHOULD NOT BE JEOPARDIZED BASED ON CENTENNIAL'S BASELESS CLAIMS**

Centennial touts its "familiar[ity] with the particular circumstances affecting the provision of telecommunications services in Puerto Rico"<sup>8</sup> as the basis for its unsubstantiated charges that PRTC is using universal service to subsidize competitive markets. PRTC encourages Centennial to extend affordable local residential service to the 26 percent of Puerto Rico's population that currently do not subscribe to basic service, and hopes that this common interest will facilitate the development of a local universal service mechanism. However, Centennial's speculative charge that universal service support will be used to subsidize competitive services in violation of section 254(k) of the Communications Act is baseless.

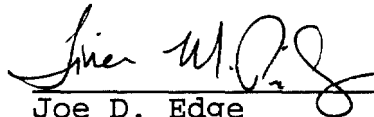
Based on these reasons and those presented in its Petition for Reconsideration, PRTC urges the Commission to reconsider its Universal Service Order to give effect to the entire statute. To do so, the Commission can provide that any carrier serving an

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8. Comments of Centennial Cellular Corp. on the Puerto Rico Telephone Company's Petition for Reconsideration ("Centennial Comments") at 1.

insular area will be permitted a transition to the proxy model universal service mechanism at such time as it is clear that the proxy model yields results that ensure the availability of universal service and the recovery of reasonable costs. This approach will ensure that the proxy model reasonably estimates costs for insular areas, where the award of insufficient universal service funds will harm subscribership rather than ensure affordable universal service.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Joe D. Edge", is written over a horizontal line.

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I, Dottie Holman, do hereby certify that a copy of the foregoing Reply to Oppositions to Petition for Reconsideration was sent by hand delivery or first class United States mail, postage prepaid as indicated, this 28th day of August, 1997, to the following:

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## **EXHIBIT 1**

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

In the Matter of

Access Charge Reform	)	CC Docket No. 96-262
	)	
Price Cap Performance Review	)	CC Docket No. 94-1
for Local Exchange Carriers	)	
	)	
Transport Rate Structure	)	CC Docket No. 91-213
and Pricing	)	
	)	
End User Common Line Charges	)	CC Docket No. 95-72
	)	

REPLY TO OPPOSITIONS TO  
PETITION FOR RECONSIDERATION OR CLARIFICATION

In its Petition for Reconsideration or Clarification, Puerto Rico Telephone Company ("PRTC") requested that the Commission reconsider its Access Charge Reform Order to the extent that it requires carriers to apply any universal service support it receives from the federal fund solely to the reduction of its interstate access charge revenue requirements.<sup>1</sup>

PRTC's Petition was addressed only by AT&T, MCI, and Sprint, which oppose application of USF funding for any purpose other than the reduction of access charges paid by them to ILECs. These IXCs raise two arguments against PRTC's petition: first, they suggest that implicit universal service support remains in access charges; second, they claim that federal universal service support should fund reductions in access charges. Neither of

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<sup>1</sup> Access Charge Reform Order, First Report and Order, CC Docket No. 96-262, FCC 97-158 (rel. May 16, 1997), recon. Order on Reconsideration by Commission Motion, FCC 97-247 (rel. July 10, 1997) ("Order").

these arguments justify the claim that universal service funds must be used exclusively to reduce interstate access charges. Indeed, such a position is directly contrary to the express requirements of section 254 of the Communications Act.

**I. THE FCC ALREADY DESIGNATED "IMPLICIT" UNIVERSAL SERVICE SUPPORT AS EXPLICIT IN THE REVISED UNIVERSAL SERVICE SUPPORT FUND**

The FCC already has identified and made explicit two components of the new universal service fund, Long Term Support ("LTS") and DEM weighting. Yet, each of the commenters claims that access charges should be reduced by universal service support receipts in order to offset remaining "implicit subsidies" that have not been removed from access charges. AT&T claims that "interstate access charges are set substantially above cost and constitute a source of universal service subsidies."<sup>2</sup> Similarly, Sprint charges that until access charges are set at economic cost, "the continuation of implicit subsidies in access charges for universal service" will only be justified by a dollar-for-dollar universal service reduction of interstate access revenue requirements.<sup>3</sup> According to MCI, "when the universal service support implicit in access charges is made explicit, access charges must be reduced to avoid double recovery of that support."<sup>4</sup>

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<sup>2</sup> AT&T at 15.

<sup>3</sup> Sprint at 6; see also MCI at 20.

<sup>4</sup> MCI at 20.

Upon the assignment of LTS and DEM weighting to the universal service fund, two corresponding changes in access charges will occur. First, non-NECA pool LECs will no longer calculate their carrier common line charges to include their Long Term Support contributions. Second, switched access rates will no longer include any implicit subsidy for DEM weighting, because it will be funded instead through universal service support contributions.<sup>5</sup> If these are the required "offsets" that AT&T, MCI, and Sprint want to ensure, then PRTC, as stated in its petition, does not disagree.<sup>6</sup>

The Commission, however, has not identified any remaining subsidies for removal or reduction, and does not immediately intend to do so. To the contrary, the Commission concluded that "as with any implicit support mechanism, universal service costs are presently intermingled with all other costs, including the forward-looking economic cost of interstate access and historic costs associated with the provision of interstate access services."<sup>7</sup> Indeed, it "could not remove universal service costs from interstate access charges" until it could identify those

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<sup>5</sup> A non-price cap LEC "must exclude from its local switching interstate revenue requirement any high-cost support attributable to DEM weighting and price cap LECs receiving support attributable to DEM weighting must "make a downward exogenous adjustment to its traffic sensitive basket price cap index (PCI) and to its common line basket PCI." Order on Reconsideration, FCC 97-247 (rel. July 10, 1997) at ¶ 5-6.

<sup>6</sup> See PRTC Petition for Reconsideration or Clarification at 3.

<sup>7</sup> Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order, FCC 97-157 (rel. May 8, 1997) at ¶ 13.

costs.<sup>8</sup> Thus, the Commission is primarily relying on competition in the market to reduce access charges.<sup>9</sup>

It appears that AT&T, MCI, and Sprint are asking for additional, unwarranted offsets to access charges from the federal universal service fund. By moving LTS and DEM weighting to the federal universal service fund, however, the Commission has already removed existing implicit subsidies from access charges and made them explicit. To then require that any additional support from the fund may only be used to reduce the access charge revenue requirement would provide a windfall to the IXC's and make it impossible for the Commission to comply with its statutory universal service mandate.

## **II. COSTS ALLOCATED TO THE INTERSTATE JURISDICTION FOR HIGH COST SUPPORT ARE INTENDED TO SUPPORT UNIVERSAL SERVICE, NOT IXC'S**

Based on these alleged "implicit subsidies," AT&T, MCI, and Sprint each claim that universal service recipients should be required to offset fund receipts against interstate access revenue requirements. These claims uniformly are based on the IXC's' view that because access charges allegedly have not yet been sufficiently reduced to eradicate all implicit subsidies, any federal universal service support should be funneled back into the access charge ratemaking calculations as a reduction in the revenue requirement. In practical terms, a "universal

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<sup>8</sup> Id.

<sup>9</sup> Access Charge Reform Order at ¶¶ 216, 258-60..

service" program of this type would exist simply to process universal service support through eligible telecommunications carriers, back to IXC's in the form of reduced rates. Such a result bears no relationship to the support mechanism for basic local telecommunications service envisioned by Congress and set forth in section 254 of the Communications Act.<sup>10</sup>

The statute directs the Commission to define universal service and then establish a system to ensure that this defined service is available at affordable rates. Reduced access charges, even assuming that they might be reflected in lower long distance rates to consumers,<sup>11</sup> will do nothing to ensure that the family of services encompassed within the FCC's universal service definition are available throughout the entire Nation. PRTC fails to see how the scheme advocated by the IXC's will "unquestionably support the set of services the Commission has included in the definition of universal service,"<sup>12</sup> which AT&T concedes "are primarily local services."<sup>13</sup> Instead, it forces

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<sup>10</sup> Indeed, by reducing the proportion of overall costs recovered through access charges, this approach would increase the costs that must be recovered through local rates. The rising local rates produced by this system would actually reduce subscribership to the services encompassed within the FCC's definition of universal service.

<sup>11</sup> Cf. USTA News Release, "Local Telephone Companies Reduce Access Charges \$1.4 Billion; Pressure Is Now on Long Distance Companies to Reduce Rates" (dated June 17, 1997).

<sup>12</sup> AT&T at 15.

<sup>13</sup> Id. Moreover, once federal support is limited to 25 percent of the identified support, there is no basis for assuming that local services will be supported by this fund. AT&T's confidence notwithstanding, it is not apparent how support based

support that was previously provided to reduce local rates to support access charges.<sup>14</sup> This result bears no relationship to the universal service mandate of section 254.

### III. CONCLUSION

No opponent has attempted to explain how the blanket restriction upon the applicability of universal service support to interstate access revenue requirements ensures affordable local rates. Indeed, PRTC agrees with AT&T, MCI, and Sprint that access charges should be reduced to the extent that LTS and DEM weighting funding mechanisms have been made explicit as part of universal service. While the IXCs may disagree with the methods prescribed by the FCC for the calculation of access charge revenue requirements, neither that dissatisfaction, nor their desire for lower access rates, justifies creation of a USF mechanism that cannot achieve the principles mandated by Congress

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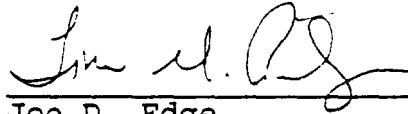
upon a proxy model that currently does not contain Puerto Rico data, limited to 25 percent of the identified required support, and applied only to the interstate revenue requirement "will unquestionably support . . . primarily local services."

<sup>14</sup> Of the supported services designated by the Joint Board and the Commission, access to interexchange service is only one. Support for such access, however, does not require guaranteed low access charges — it requires support for the cost of accessing interexchange services.



in section 254 of the Act. Therefore, PRTC urges the Commission to grant its Petition for Reconsideration or Clarification in the instant proceeding.

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